Corp reports

50th ANNUAL REPORT 1971

Monarch Investments Limited

MONARCH INVESTMENTS LIMITED

BOARD OF DIRECTORS

President	ROY A. WYKES
Vice-President	ARTHUR K. LEITCH
Directors	G. DRUMMOND BIRKS W. G. C. HOWLAND, Q.C. DOUGLAS JOHNSTONE LESLIE OLORENSHAW, F.I.O.B. COLIN J. PARSONS, C.A. FRANK TAYLOR, F.I.O.B.
Secretary	NORMAN J. NOTLEY
Treasurer	COLIN J. PARSONS, C.A.

Transfer Agents	CANADA PERMANENT TRUST COMPANY 1901 Yonge Street, Toronto 455 Granville Street, Vancouver
Bankers	THE TORONTO-DOMINION BANK King and Bay Streets, Toronto
Auditors	PEAT, MARWICK, MITCHELL & CO. 4 King Street West, Toronto
Solicitors	McMILLAN, BINCH 20 King Street West, Toronto

TO THE SHAREHOLDERS

Your Directors once again have pleasure in submitting to you the Financial results of the operations of your Group of Companies for the fiscal year ended December 31st, 1971, together with the audited accounts as reported upon by Peat, Marwick, Mitchell & Co., your Auditors. These include a Consolidated Balance Sheet, Consolidated Statement of Earnings and Retained Earnings Employed in the Business, and Consolidated Statement of Source and Application of Funds.

Last year we reported that the Head Office of your Companies had been moved to 2025 Sheppard Avenue East in Willowdale and we have pleasure in noting that the building has made a very suitable head office and received many compliments from visitors. In addition to this, we have found it an extremely convenient location and the strain of travelling to and from our previous downtown location has been removed, with no offsetting disadvantages.

Financial Statements

The operating profit for 1971 before depreciation and income tax amounts to $1,325,854. This compares with the profit for 1970 of $1,350,028 after excluding a non-recurring tax free dividend of $225,400. After depreciation, interest on mortgages, bonds, etc., the corresponding figures of net profit before taxes are $1,055,778 and $1,110,785. The net earnings for the year, after taxes, amount to $610,778 as compared with $709,410 for 1970.

All the Company's land inventory is recorded in the accounts at not more than cost of acquisition. The carrying costs of raw land are charged against current income in accordance with the Company's long established practice. A steady volume of new construction of houses has been maintained.

Apartments, Toronto

Vacancies, although a little higher than last year, have still continued to be quite low and again, in spite of the increasing operating cost, returns have been reasonable. Your Company's plans for redevelopment have been frustrated on the planning side by Government action, which we believe to be of a temporary nature, but, in any case, we have decided not to proceed during the year with this type of development owing to the extremely low returns which are available on new apartment house construction.

42-48 Charles Street East Office Building, Toronto

During the year, owing to lease terminations some vacancies developed, but these have now been nearly all filled and the project still continues to show a good return. We decided to include this investment with the Monarch Investments portfolio and it was transferred from 42-48 Charles Street East Limited to Monarch Investments Limited.

Kipling Heights Shopping Centre, Etobicoke
Eglinton Square Shopping Centre, Scarborough

In spite of a keenly competitive and somewhat difficult year in the rental business, our Centres have held their own and Eglinton Square in particular is an attractive investment.

Heron's Hill Offices, North York

The first stage is now virtually completely let with a small amount of space in small areas being still available. As a result of a market survey during the year, the start of the second phase has been delayed until the Spring of 1972 in the light of present conditions. However, a further check on the situation makes it appear unlikely that a start would be made on this project until quite late in this year and possibly not until 1973.

Monarch Construction Limited

The Chartwell Sub-Division has again progressed well under what have been difficult market conditions. During the year we embarked on a Town House Condominium project and we are happy to report that the first stage of this has been selling quite well and justified our proceeding with the second stage. There is a great difference between Condominium apartments and Condominium Town Houses, the former at present being in an extremely difficult market and the latter reasonably popular. We shall move during this year into a further phase of the Sub-Division where some 200 lots will become available about half of which we shall use for our own building programme and the other half will be sold to other builders. A further phase should be available in the latter part of the year.

There has been a hold-up on the development of the remaining land at Pleasant Valley, Dundas due to some confusion with the Gertler Report, which restricts development close to the Niagara Escarpment, but it is anticipated that this difficulty can be overcome.

Negotiations to develop the new Sub-Division in Unionville are still proceeding.

Monarch Construction (Eastern) Limited

We are unable to report any significant improvement in the Montreal market, which, although it has improved slightly over the last year, is still far from normal and a long way from the conditions of four years ago. However, we have been able to maintain the profitability of the Company by having it continue to undertake work in Ontario.

Clarkside Corporation Limited

We decided that it would be more advantageous to operate under the well known name of Monarch in the London area. Accordingly the name of this Company was changed to Monarch Construction (Western) Limited.

The Ontario Government's lot purchases under the H.O.M.E. plan has been very successful and a very large number of low cost homes developed by ourselves and other builders have been marketed.

During the year it was decided to sell the shopping centre site to a group of developers who were anxious to purchase it and proceed with the construction of a shopping centre. However, their plans have been somewhat delayed but we do anticipate a start will be made in 1972.

General

As shareholders will know, the majority and controlling shareholder of your Company is Taylor Woodrow, the world-wide British Contracting Company. This Company celebrated its 50th Jubilee Year in 1971, being the 50th Year since the Group Chairman, Mr. Frank Taylor formed the Company at the age of 16. It is quite a coincidence that 1971 was the 50th Anniversary of Monarch Investments Limited. All of us in the Team are very proud to be carrying on the great traditions of these two fine Companies.

We think that having in mind that the 1970 profits included a dividend from a Subsidiary which was not really applicable to the year, we can, by comparing this year with last say the position is not unsatisfactory. We are anticipating an increased volume of business which may benefit the trading position for 1972 providing we can bring some of our projects forward just a little. Your Company and the industry have been very concerned, as we said in last year's Annual Report, to do what they can to produce lower cost homes. During the year with the cooperation of the Municipality concerned, we endeavoured to re-zone some of our lands to provide smaller lots and smaller homes, which would have enabled us to lower the prices considerably and thus put the homes within the reach of more people. However, it would appear that everybody is in favour of producing low cost homes so long as they are not in their own particular neighbourhood. Considerable ill-informed opposition took place and, since it was going to involve us in long delay, we decided to withdraw our plans. We have not given up the idea entirely however, and have designated lands in another area for lower cost homes. We anticipate that we will receive the full support of the Municipality concerned.

Although there has been an easing in the interest rates on mortgage money it is still expensive and is an area where Government should give serious thought to assistance in one form or another to enable more people to buy their own homes.

We congratulate the Government of Ontario for bringing out the Design for Development, Toronto Centred Region Plan, which is a definite step in the right direction towards having a master plan over a very large area. In this way all concerned, and in particular the land development industry, will know where services will, in due course, be made available. The advent of such a plan will help the industry and considerably reduce the activities of the speculator. We sincerely hope that the Provincial Government will not be too rigid in administering the Plan and that consideration will be given to the considerable land bank which has been acquired over the years by the development industry in areas where the Government seeks to minimise development.

We also feel that the Government must be extremely careful in administering the Plan since it appears to most of us in the industry that there is a very real risk that its immediate effects will reduce the supply of serviced land with the inevitable result that there will be a shortage of building lots in the Greater Toronto Metropolitan Area and the inevitable increase in prices.

So far as can be determined, the new Income Tax Act which came into force on January 1, 1972 is no more adverse than previous tax laws and the Federal Government does appear to have paid some heed to the representations made by the industry. The new tax laws combined with the efforts of the Provincial Government should discourage the land speculator and tend to eliminate this hazard to the industry.

We are very fortunate in that 1972 has opened on a cheerful note and sales and the general atmosphere appear to give cause for optimism. Once again our splendid Team of people has functioned very well indeed and tackled all the difficulties in a yeoman-like manner.

I know you will join me and the Board in acknowledging the splendid efforts which the Team continues to render your Company.

During the year Mr. J. J. Thistlewaite, a Vice-President of Monarch Investments Limited and a Director, decided to take early retirement. We are very sorry to see him go. He rendered wonderful service to the Company during the period he was with us.

We are pleased to announce that Mr. C. J. Parsons your Company's Treasurer, has accepted an invitation to join the Board. Also we have been fortunate in having Messrs. B. G. Thomas and G. E. W. Winship join the Board of your Subsidiary Company, Monarch Construction Limited.

Once again, we offer our thanks and appreciation to our Bankers, professional friends and associates, suppliers and subcontractors. Also to you, our shareholders, we tender special thanks for your continued and valued support.

I personally am most grateful to my colleagues on the Board for their kind cooperation in administering the affairs of the Company at all times and for their invaluable help and guidance.

ROY A. WYKES
President

February 1972

CONSOLIDATED BALANCE SHEET—December 31, 1971

(with comparative figures for 1970)

ASSETS

		1971	1970
Cash		$ 347,918	$ 197,175
Accounts receivable		447,025	245,679
Prepaid expenses		56,222	42,020
Mortgages receivable, including accrued interest (note 2)		3,569,566	669,421
Income taxes recoverable		—	211,021
Investment in a 49% owned affiliated company (note 1b):			
Shares, at cost	$ 490		490
Advances	—		6,038
		490	6,528
Amounts deposited for performance of contracts		260,595	277,549
Inventory of land, development costs and construction in progress (notes 1e and 3)		12,165,852	11,317,518
Investment properties:			
Buildings and equipment, at cost	12,200,465		12,097,463
Less accumulated depreciation (note 1g)	3,345,192		3,114,087
	8,855,273		8,983,376
Land, at cost	499,828		536,023
		9,355,101	9,519,399
Furniture and equipment, at cost	121,758		114,922
Less accumulated depreciation	65,494		65,053
		56,264	49,869
Deferred leasing expenses (note 1h)		170,709	190,225
		$26,429,742	$22,726,404

On behalf of the Board:

Roy A. Wykes, *Director*

Colin J. Parsons, *Director*

See accompanying no

LIABILITIES AND SHAREHOLDERS' EQUITY

		1971	1970
Bank loans and overdrafts secured by assignment of amounts receivable		$ 539,232	$ 943,055
Accounts payable and accrued liabilities		1,527,318	1,294,883
Rents and deposits received in advance		135,733	115,765
Due to affiliated companies		28,145	37,777
Income taxes payable		374,930	104,358
Mortgage advances received on houses under construction		908,830	210,756
Deferred profit relating to land sales (note 1c)		184,819	232,183
Long-term debt:			
Mortgages payable, including accrued interest (note 4)	$14,099,216		11,440,743
First mortgage bonds, Series B (note 5)	436,000		488,000
7% Sinking fund debentures (note 6)	226,500		236,000
		14,761,716	12,164,743
Deferred income taxes		569,100	647,200
Shareholders' equity:			
Capital stock:			
Common shares without par value			
Authorized 550,836 shares; issued 373,086	1,912,300		1,912,300
General reserve — unchanged during year	2,000,000		2,000,000
Retained earnings employed in the business	3,487,619		3,063,384
		7,399,919	6,975,684
		$26,429,742	$22,726,404

financial statements.

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS EMPLOYED IN THE BUSINESS—Year Ended December 31, 1971

(with comparative figures for 1970)

		1971	1970
Gross operating revenue:			
Land development and construction		$ 8,551,639	$ 7,980,701
Investment properties		2,421,847	1,901,934
Interest and sundry revenue		480,079	375,144
Total		$11,453,565	$10,257,779
Operating profit before the undernoted items		$ 2,324,190	$ 1,960,161
Add dividend received from affiliated company (note 1b)		—	225,400
		2,324,190	2,185,561
Deduct:			
Depreciation	$ 270,076		239,243
Amortization of deferred leasing expenses (note 1b)	48,000		—
Interest on long-term debt	950,336		610,133
		1,268,412	849,376
Earnings before taxes on income		1,055,778	1,336,185
Taxes on income (note 10)		445,000	626,775
Net earnings for the year		610,778	709,410
Retained earnings employed in the business at beginning of year		3,063,384	2,540,517
		3,674,162	3,249,927
Deduct dividends paid		186,543	186,543
Retained earnings employed in the business at end of year		$ 3,487,619	$ 3,063,384
Earnings per share, based on 373,086 shares		$ 1.64	$ 1.90

See accompanying notes to financial statements.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Year Ended December 31, 1971

(with comparative figures for 1970)

		1971	1970
Funds provided:			
Net earnings		$ 610,778	$ 709,410
Add (deduct) charges (credits) not involving cash:			
Depreciation	$ 270,076		239,243
Amortization of deferred leasing expenses	48,000		—
Increase (decrease) in deferred income taxes	(78,100)		287,200
Increase (decrease) in deferred profit relating to uncollected proceeds of land sales	(47,364)		66,566
		192,612	593,009
Funds provided from operations		803,390	1,302,419
Proceeds of issue of long-term debt mortgages	3,080,949		3,664,590
Increase (decrease) in income taxes payable	270,572		(193,947)
Increase (decrease) in mortgage advances	698,074		(312,709)
Increase (decrease) in other liabilities	248,809		(377,429)
		4,298,404	
Total funds provided		5,101,794	
Funds used:			
Increase (decrease) in land, development costs and construction in progress	848,334		(558,686)
Additions to investment properties	66,806		1,067,837
Deferred leasing expenses	28,484		190,225
Increase in mortgages receivable	2,900,145		172,768
Decrease in bank loans and overdrafts	403,823		2,330,323
Repayment of long-term debt	483,976		813,278
Dividends	186,543		186,543
Increase (decrease) in other assets	32,940		(10,440)
		4,951,051	
Increase (decrease) in cash		$ 150,743	$ (108,924)

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS—December 31, 1971

1. **Principles of consolidation and accounting policies:**

(a) All subsidiary companies are wholly owned and their accounts are included in the consolidated financial statements. All material inter-company transactions have been eliminated upon consolidation.

(b) Earnings of the 49% owned affiliate have been included in the financial statements only to the extent of dividends received, none in 1971, $225,400 in 1970. The company's share of the undistributed earnings of the affiliate for 1971 is $165 and since acquisition is $7,768.

(c) The companies take up income on land sales on the basis of cash received after such receipts exceed 15% of the sales price. Where part of the consideration represents mortgages receivable, they are included in gross revenue and the related gross profit is deferred, to be taken into income, after deducting the related income taxes, as the mortgages are liquidated. Income arising from the disposition of land under agreements for sale is recognized in the companies' accounts only to the extent of cash received after such receipts exceed 15% of the total sales price.

(d) Realty taxes and other development expenses on land under development are included in development costs. Similar expenses on undeveloped land upon which a plan of subdivision has not been registered are charged to current operations.

(e) Land, development costs and construction in progress are carried at the lower of cost and estimated realizable value. Where undeveloped land has been acquired as replacement for undeveloped land sold, the land acquired is carried in the accounts at an amount equal to the cost of the land disposed of.

(f) Interest, other than that pertaining to development of investment properties, is charged to current operations. Interest relating to development of investment properties is included in the cost of the property until construction is completed and in deferred leasing expenses until the deemed date of completion.

(g) Depreciation of investment properties has been provided using the following methods:

(i) Office complex in North York – commencing in 1971 a sinking fund method using a 5% rate under which the cost will be amortized over the estimated useful life of 40 years by an amount of $29,800 in 1971 and increasing year by year to an amount of $199,800 in the fortieth year.

(ii) Buildings acquired in 1959 and subsequent years – a straight line method under which the cost will be amortized over the estimated useful life of 40 years by equal annual charges to income.

(iii) Buildings acquired prior to 1959 – effective in 1971 a straight line method under which the undepreciated cost at December 31, 1970 will be amortized over the estimated remaining useful lives (12 to 27 years). Prior to 1971 such buildings were being depreciated on a diminishing balance method at 5% of the undepreciated cost. The change of method of providing depreciation on such buildings had no material effect on the depreciation charge for 1971.

(iv) Equipment – a diminishing balance method at 20% of the undepreciated cost annually.

(h) Deferred leasing expenses related to the office complex in North York are being amortized over five years commencing in 1971.

2. **Mortgages receivable:**

Of the mortgages receivable $479,801 is due in 1972 and the remainder fall due at varying dates, the last payment being due in 1979.

3. **Inventory:**

Land, development costs and construction in progress includes the following:

	1971	1970
Undeveloped land	$ 7,819,659	$ 8,137,535
Land under development, including development costs	2,381,643	2,408,824
Construction in progress . .	1,964,550	771,159
	$12,165,852	$11,317,518

Development costs incurred in 1971 include municipal taxes of $73,020.

4. **Mortgages payable:**

Mortgages payable bear interest (including participation in rentals by a mortgagee) at rates ranging from 4¾% to 9½% and fall due as follows:

1972 . .	$ 832,592	1975	$ 1,320,046
1973 . .	1,391,958	1976	930,704
1974 . .	687,009	1977 to 2005 .	8,936,907
			$14,099,216

5. **First mortgage bonds Series B:**

The bonds bear interest at 6¾% per annum and are repayable in annual instalments of $52,000 to 1978, the balance falling due on October 1, 1979. The company may redeem the bonds at a premium subject to certain restrictions.

6. **7% Sinking fund debentures:**

The debentures are due May 1, 1975. Under their deeds of trust annual amounts are required to be set aside equivalent to 20% of the issuing subsidiary's net profit for the immediately preceding year. Sums so set aside may be used for purchase for cancellation or redemption of debentures.

7. **Pension plan:**

At December 31, 1971 it is estimated that the unfunded liability for past service is $88,000 which is being funded by annual payments to 1985.

8. **Contingent liabilities:**

The company and certain subsidiaries are on the covenant of certain first mortgages assumed by purchasers of houses and properties sold. It is considered unlikely that the companies will become directly liable in respect of any such covenants.

9. **Supplementary information:**

The aggregate direct remuneration paid during the year ended December 31, 1971 by the company and its subsidiary companies to directors and senior officers of the company, as defined in The Business Corporations Act (Ontario), was $199,531.

10. **Income taxes:**

The provision for income taxes for 1971 has been reduced by $70,000 due to a loss carry forward in a subsidiary.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Monarch Investments Limited and subsidiary companies as of December 31, 1971 and the consolidated statements of earnings and retained earnings employed in the business and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies at December 31, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles which, except for the changes in the methods of providing depreciation on investment properties described in note 1g to the financial statements, were applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

Toronto, Ontario
February 11, 1972

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Willowdale, Ontario, Canada

Monarch Investments Limited

MONARCH CONSTRUCTION LIMITED
MONARCH CONSTRUCTION (WESTERN) LIMITED
MONARCH CONSTRUCTION (EASTERN) LIMITED
MONTROW REALTY LIMITED

Subsidiary Companies

Members of the Taylor Woodrow Group